

stress testing before you purchase any investment that is structured or that has uncertain cash flows, including all mortgage-backed securities or asset-backed securities. The stress testing must be commensurate with the risk and complexity of the investments and must comply with the requirements of paragraph (f)(4) of this section.

(2) *Monthly fair value determination.* At least monthly, you must determine the fair market value of each investment in your portfolio and the fair market value of your whole investment portfolio.

(3) *Ongoing analysis of credit risk.* You must establish and maintain processes to monitor and evaluate changes in the credit quality of each security and the whole investment portfolio on an ongoing basis.

(4) *Quarterly stress testing.* (i) You must stress test your entire investment portfolio, including stress tests of all investments individually and stress tests of the portfolio as a whole, at the end of each quarter. The stress tests must enable you to determine that your investment securities, both individually and on a portfolio-wide basis, do not expose your capital, earnings, or liquidity to risks that exceed the risk tolerance specified in your investment policies. If your portfolio risk exceeds your investment policy limits, you must develop a plan to reduce risk and comply with your investment policy limits.

(ii) Your stress tests must be comprehensive and appropriate for the risk profile of your investment portfolio and the Corporation. At a minimum, the stress tests must be able to measure the price sensitivity of investments over a range of possible interest rate/yield curve scenarios. The methodology that you use to analyze investment securities must be appropriate for the complexity, structure, and cash flows of the investments in your portfolio. You must rely to the maximum extent practicable on verifiable information to support all your assumptions, including prepayment and interest rate volatility assumptions, when you apply your stress tests. Your assumptions must be prudent and based on sound judgment, and you must document the basis for all assumptions that you use

to evaluate the security and its underlying collateral. You must also document all subsequent changes in your assumptions.

(5) *Presale value verification.* Before you sell an investment, you must verify its value with a source that is independent of the broker, dealer, counterparty, or other intermediary to the transaction.

(g) *Reports to the board of directors.* At least quarterly, executive management must report on the following to the board of directors or a designated committee of the board:

(1) Plans and strategies for achieving the board's objectives for the investment portfolio;

(2) Whether the investment portfolio effectively achieves the board's objectives;

(3) The current composition, quality, and liquidity profile of the investment portfolio;

(4) The performance of each class of investments and the entire investment portfolio, including all gains and losses that you incurred during the quarter on individual securities that you sold before maturity and why they were liquidated;

(5) Potential risk exposure to changes in market interest rates as identified through quarterly stress testing and any other factors that may affect the value of your investment holdings;

(6) How investments affect your capital, earnings, and overall financial condition;

(7) Any deviations from the board's policies. These deviations must be formally approved by the board of directors.

#### **§ 652.15 Non-program investment purposes and limitation.**

(a) Farmer Mac is authorized to hold eligible non-program investments listed under § 652.20 for the purposes of enterprise risk management, including complying with its interest rate risk requirements in § 652.30; complying with its liquidity requirements in § 652.40; managing surplus short-term funds; and complementing program business activities.

(b) Non-program investments cannot exceed 35 percent of program assets and

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program obligations, excluding 75 percent of the program assets that are guaranteed by the United States Department of Agriculture as described in section 8.0(9)(B) of the Farm Credit Act of 1971, as amended. When calculating the total amount of non-program investments under this section, exclude investments pledged to meet margin requirements on derivative transactions.

**§ 652.20 Eligible non-program investments.**

(a) You may hold only the types, quantities, and qualities of non-program investments listed in the following Non-Program Investment Eligibility Criteria Table. These investments must be denominated in United States dollars.

**NON-PROGRAM INVESTMENT ELIGIBILITY CRITERIA TABLE**

Asset class	Final maturity limit	NRSRO issue or issuer credit rating requirement	Other requirements	Maximum percentage of total non-program investment portfolio
(1) Obligations of the United States. • Treasuries • Other obligations (except mortgage securities) fully insured or guaranteed by the United States Government or a Government agency.	None .....	NA .....	None .....	None.
(2) Obligations of Government-sponsored agencies. • Government-sponsored agency securities (except mortgage securities). • Other obligations (except mortgage securities) fully insured or guaranteed by Government-sponsored agencies.	None .....	NA .....	None .....	None.
(3) Municipal Securities: • General obligations .. • Revenue bonds .....	10 years ..... 5 years for fixed rate bonds and 10 years for index/floating rate bonds.	One of the two highest Highest .....	None ..... None .....	None. 15%.
(4) International and Multilateral Development Bank Obligations.	None .....	None .....	The United States must be a voting shareholder.	None.
(5) Money Market Instruments: • Federal funds .....	1 day or continuously callable up to 100 days.	One of the two highest short-term.	None .....	None.
• Negotiable certificates of deposit.	1 year .....	One of the two highest short-term.	None .....	None.
• Bankers acceptances	None .....	One of the two highest short-term.	Issued by a depository institution.	None.
• Prime commercial paper.	270 days .....	Highest short-term .....	None .....	None.
• Non-callable term Federal funds and Eurodollar time deposits.	100 days .....	Highest short-term .....	None .....	20%.
• Master notes .....	270 days .....	Highest short-term .....	None .....	20%.